EUROPEAN PARLIAMENT

EUROPEAN PARLIAMENT DELEGATION

for relations with

THE UNITED STATES

25th meeting of delegations

19-26 June 1985

WASHINGTON, DC and WEST POINT, NY

Background note

on

US agricultural policy

(This document exists in English only)

drawn up by the

Commission of the European Communities

DIRECTORATE-GENERAL FOR COMMITTEES
AND INTERPARLIAMENTARY DELEGATIONS

3 June 1985

PE 98.553

BACKGROUND

The main thrust of agricultural policy in the United States is to boost farm income. American policy has been worked out gradually and piecemeal over the past fifty years and rests largely but not exclusively on two main pillars, price support through a miscellany of loans, deficiency payments and direct government purchases, and production adjustment i.e. limiting production with the aim of raising unit prices and therefore income.

US agricultural policy also includes:

- import controls on a series of products which are permitted only because the US has been specially exempted from its international obligations in GATT,

- financial assistance for exports, mainly under the so-called public law (PL) 480 with regard to developing countries.

Legal basis

There is no consolidated legislation governing US Agriculture and indeed legislation incorporating multi-year agricultural programmes is periodically renewed. The main current legislation, due to be replaced by the 1985 Farm Bill, is the Agriculture and Food Act of 1981. However, many features of US agricultural policy are governed by the surviving provisions of earlier legislation, including the fundamental Agricultural Adjustment Act of 1933.

Price support

Price support is given, broadly speaking, in three ways.

Loan rate

This is the price per unit at which the government will provide loans to farmers to enable them to keep their crops in store for later sale and so avoid harvest-time pressures to sell immediately in temporarily glutted markets. For example, the government lends a farmer, say $3.10 for each bushel of maize he produces and, if the price falls below that figure, the farmer can simply default on the loan and pocket the $3.10 per bushel. The maize is forfeit to the government; because of this default facility of 'non-recourse' loans, the loan rate effectively acts as a minimum market price; hence, given the size of the US, a world floor price. The system applies to cereals, rice, cotton, sugar and soya.

Target price and deficiency payment

In addition, a target price is set for some products (wheat, feed grains, upland cotton, and rice) and if market prices fall below the target, farm income is topped up at a rate based on the difference between the target price and the loan rate or the average market price, whichever is higher.

Direct purchase

The CCC (Commodity Credit Corporation) can make direct purchases, as authorised by legislation. This system - comparable to intervention buying in the Community - is particularly important in the dairy sector where the government purchases all milk for which there is no commercial market in the form of butter, cheese, and non fat dry milk. There is also a federally administered programme of payments to dairies that cut production, financed by the dairy farmers themselves.

Production adjustment

A complex variety of production controls exists in an attempt to keep up commodity prices against an inherent and inexorable tendency for US agriculture - the Saudi-Arabia of grain - to improve productivity and produce vast surpluses.

Production controls, which limit how much land a farmer may plant and, in the most restrictive programmes such as those governing peanuts and tobacco, how many pounds of his crop an individual producer may sell each year. The controls are enforced in several ways, including loss of eligibility for federal loans and other benefits for non-compliance, incentives in the form of cash or commodity payments for compliance or, in the case of the administration's huge 1983 PIK programme (which paid farmers in cash and crops to leave land fallow), all of the above.

The impact of acreage reductions has always been compromised by crop farmers' inclinations to retire their worst land and grow as much as they can on the rest, and the PIK programme was no exception.

In addition to the large scale PIK programme, production controls include "acreage reduction", "set-aside" programmes, "marketing quotas", "acreage allotments" (see glossary).

Other measures

The federal government's involvement in agriculture and the rural economy goes much further. Federal "marketing orders" neutralize anti-trust barriers to farmers' collective actions to promote specialty crops or control how much of a crop comes to market. Fruit and vegetables are subject to marketing orders.

Publicly financed storage facilities enable farmers to hold goods off glutted markets; those doing so can also qualify for more generous price-support loans in certain circumstances.

There are multi-million-dollar tax breaks for farming and federally bankrolled rural electric and telephone service.

A world-renowned cadre of experts in agriculture research and development at public land-grant universities and USDA (US Deparment of Agriculture) experiment stations, subsidized irrigation water, and grazing rights on publicly owned land add to federal farm assistance.

Then there are loans at favourable interest rates from the quasi-public Farm Credit System and from the Farmers Home Administration (FHA). The mission of the latter agency is to lend to farmers whose credit situation is so bad they cannot get loans anywhere else.

Cost of US Agricultural Policy

Agricultural policy in the United States constitutes an increasingly heavy and controversial burden on the US taxpayer. In 1983 the CCC had actual outlays of 18,757 billion dollars. Put another way, the "US Farm Bureau" - a general farmers' association - has calculated that US taxpayers made an investment in 1983 of nearly 12,000 dollars for each of the 2.4 million farms in the United States.

The cost in 1984 was significantly less, at something like 7.31 billion dollars - largely as a result of higher prices created by PIK (and drought which reduced output).

Financing of price support is carried out by the Community Credit Corporation (CCC).

NB 1984 total Community budget - 23 billion dollars of which: agricultural price support - 15 billion dollars.

GLOSSARY OF US AGRICULTURAL TERMS

ACREAGE ALLOTMENT: the individual farm's share, based upon its previous production, of the national acreage needed to produce sufficient supplies of a particular crop. Acreage allotments currently apply only to tobacco under the Agriculture and Food Act of 1981.

ACREAGE BASE: for purposes of acreage reduction and paid land diversion programmes, the individual farm's programme acreage for a commodity based upon historical production patterns, usually utilizing the previous year, two years', or three years' average production for that commodity.

ACREAGE REDUCTION PROGRAMME (ARP): a programme, authorized under the Agriculture and Food Act of 1981, under which the Secretary of Agriculture may require producers, as a condition of eligibility for farm programme benefits, to reduce their acreage of a particular commodity by a given percentage from their acreage base level.

BASIC COMMODITY: six agricultural crops (corn, cotton, peanuts, rice, tobacco and wheat) declared by legislation as requiring price support.

BUDGET RECONCILIATION: term used to describe the process, authorized under the Budget Control Act of 1974, by which the Congress changes current law to reduce spending levels for federal entitlement programmes in order to comply with the provisions of the first concurrent budget resolution.

COMMODITY CREDIT CORPORATION (CCC): a wholly owned federal corporation within and managed by officials of the Department of Agriculture. It functions as the financial institution through which all money transactions are handled for farm price and income support.

CONSERVATION USE ACREAGE: a portion of the acreage removed from production under either an acreage reduction programme or a paid land diversion programme which must be devoted to conservation uses. Conserving uses may be designated by local ASCS committees.

CROSS-COMPLIANCE: the requirement that producers of several basic commodities participate in all acreage reduction programmes for those commodities as a condition of eligibility for only one programme.
Example: a cotton and wheat farmer would have to participate in both the cotton and wheat acreage reduction programmes to be eligible for benefits under the cotton programme, even if benefits were not desired under the wheat programme.

DEFICIENCY PAYMENT: also known as income support payment, or price support payment. Funds paid to farmers when farm prices are below support levels; arrived at by subtracting from the target price, or the total support level, the higher of (1) the loan rate, or (2) the national average price of a commodity during the first five months of the marketing year (calendar year price for cotton). Generally, the federal government pays this difference to a farmer who qualifies (by meeting all farm programme conditions) for that portion of his production specified in the farm programme.

ESTABLISHED PRICE: see target price.

FARMER-OWNED RESERVE: a reserve programme, reauthorised by the 1981 Agricultural and Food Act currently in effect for wheat and feed grains. The farmer-owned reserve provides producers the option of entering their commodity into the three- to five-year long-term storage programme, in return for a non-recourse loan, storage payments, and no interest charges on the second and third years of storage. The farmer-owned reserve is currently being operated utilizing a reserve entry price, or a reserve loan level, and a reserve release price, which allows farmers to remove commodities without penalty when the average market price equals or exceeds that level.

LOAN RATE: the price per unit at which the government will provide loans to farmers to enable them to hold their crops for later sale.

MARKETING QUOTA: that quantity of a crop that will provide adequate and normal market supplies. This quantity is translated into terms of acreage needed to grow that amount and alloted among individual farms based on their previous production of that commodity. When marketing quotas are in effect (only after approval by 2/3 or more of the eligible producers voting in a referendum), growers who produce in excess of their farm acreage allotments are subject to marketing penalties on the "excess" production and are ineligible for government price support loans. For certain tobaccos, a poundage limitation is applicable as well as acreage allotments, when approved by grower referendum. Marketing quotas also apply to peanuts.

NON-BASIC COMMODITY: agricultural crops declared by legislation as requiring price support at the discretion of the Secretary of Agriculture. Exceptions are the "designated" non-basic agricultural commodities, which include tung nuts, soybeans, honey, milk, sugar beets, and sugar cane, for which the Secretary is directed to provide price support.

NON-CONSERVING USE: used to describe the planting of crops for purposes other than conserving uses on acreage designated as reduced from a base level for a commodity for the purposes of price support eligibility.

NON-RECOURSE LOAN: loans made at established price support levels to farmers to enable them to hold their crops for later sale. The loans are non-recourse because, if a farmer cannot profitably sell the commodity and repay the loan when it matures, the pledged or mortgaged collateral (the commodity on which the loan was advanced) can be delivered to the government for settlement of the loan. Farmers may deem their commodities by paying off the loan with interest.

NORMAL CROP ACREAGE: the normal acreage on a farm devoted to a group of crops designated by the Secretary of Agriculture. When a set-aside is in effect, a farm's total planted acreage of such designated crops plus set-aside cannot exceed the normal crop acreage if the farmer wants to participate in the programmes. Normal crop acreage, and set-aside programmes, apply only to the 1982 crops of wheat and feed grains, as authorised by the Agriculture and Food Act of 1981.

PAID LAND DIVERSION: authorised for wheat, feed grains, cotton, and rice under the Agriculture and Food Act of 1981, this programme provides compensation to producers for acreage reduced from production of a basic commodity. Amounts payable to producers under this programme may be determined by bids submitted by producers for diversion contracts, or may be predetermined by the Secretary.

PARITY PRICE: price per bushel (or pound or bale) that would be necessary for a bushel today to buy the same quantity of foods (from a standard list) that a bushel would have bought in the 1910-1914 base period at the prices then prevailing. Over simplified, it would be the price per bushel of wheat that farmers would need today in order to buy a suit of clothes with the same number of bushels that it took in 1910-1914.

PARITY RATIO: a measure of the relative purchasing power of farm products. The ratio between the index of prices received by farmers for all farm products and the index of prices paid by farmers for commodities and services used in farm production and family living. The parity ratio measures price relationships (prices received and prices paid); it does not measure farm income (units of production per acre and per animal have increased and fewer farmers share total farm income); nor does it measure farmer's total purchasing power (individual farms and larger and total farm production is higher); nor does it measure farmer's welfare (does not reflect off farm income, government payments, farmer's assets or other factors).

PAYMENT-IN-KIND: also known as "crop swap", this programme was utilised for the 1983 crops of wheat, feed grains, cotton and rice. It offered producers the opportunity to reduce production by an additional 10 to 30 percent over and above the previously announced acreage reduction programmes in return for compensation in the form of the actual commodity which would have been produced on the land. Compensation rates were 95 percent for wheat, and 80 percent for cotton, rice, corn and sorghum.

RECOURSE LOAN: theoretically, a price support loan to farmers to enable them to hold their crops for later sale. The loan would be recourse because, if a farmer cannot profitably sell the commodity prior to the expiration of the loan contract, the farmer must repay the loan when it matures and take back the commodity which was pledged as collateral for the loan. Recourse loans are a theoretical concept, as they have never been used in farm programmes.

SET-ASIDE: authorised only for wheat and feed grains under the Agriculture and Food Act of 1981, this is a government farm programme term used to designate the proportion of a farmer's normal crop acreage that he must plant to soil conserving uses (such as grasses, legumes, and small grain which is not allowed to mature) in order to be eligible for price support payments and loans.

STORAGE PAYMENT: payments made to producers by the federal government to cover costs of storage of commodities in the farmer-owned grain reserve.

TARGET PRICE: Also known as the "Established Price", a minimum level of commodity market prices determined by law to be adequate for farmers to meet the cost of production. Sometimes called the "guaranteed price level". The target price becomes the price support level at which the government will bolster farm income by making price support payments to qualifying farmers when national average market prices fall below the target. Target prices are authorised by the 1981 Agriculture and Food Act for wheat, feed grains, cotton and rice.